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TAGS: EFIN ETRD EINV PGOV PREL NI
SUBJECT: NIGERIA'S ECONOMIC TEAM: COMMITMENT TO REFORM BUT
LITTLE CHANGE AS YET

Classified By: Ambassador John Campbell for Reasons 1.5 (B) and (D).

¶1. (S/NF) Summary: President Olusegun Obasanjo's economic "Dream Team" is largely doing the right thing but operates mainly at the macroeconomic level, while the micro-economy continues to suffer. Team members appear to enjoy shallow support at the level of the Presidency and Vice Presidency, where shady deals continue, and among the civil service. While team members enjoy good relationships with one another, exhaustion may be setting in. Their inability to transform macro theory into practice beneficial to the real sector of the economy is wearing on the group. Less than thirty percent of the population has improved its living standard during the last five years, while the lot of the remainder has worsened. Given Obasanjo's questionable commitment to economic reform, the group could be on its way out the first time they fail to impress the international community with their credentials and accomplishments. Meanwhile, the GON has made progress on budget transparency, but has regressed on trade policy, with capricious product bans and punitive tariffs. We should continue to support the economic team while recognizing that the results of their policies may not live up to expectations-theirs or ours. We should also encourage the GON to prioritize its economic goals and establish timelines for achieving them. Any concessions made to Nigeria based on economic reforms should be tied to progress in education, health care, and poverty eradication. End summary.

The Dream Team: An Assessment

¶2. (S/NF) Coming into his second term with a questionable mandate resulting from a flawed election process, Obasanjo encouraged the international community with the appointment of his all-star economic team. His economic advisor, Dr. Charles Soludo, was at one time or another economics professor, Brookings Institution fellow, and consultant to the World Bank and USAID. Obasanjo's Finance Minister Dr. Ngozi Okonjo-Iweala, a Harvard and MIT graduate, was a vice president and corporate secretary of the World Bank. Obasanjo's Special Assistant on Due Process, Dr. Oby Ezekwesili, a holdover from his previous administration, is a respected figure at the international level. The members of the team can and do say exactly what their international interlocutors want to hear, thereby charming the Paris Club, the London Club, the USG, the IMF, etc. Their duties, collectively, are to dazzle the international community, reform Nigeria's moribund economy, and express indignation over putatively biased international reports about Nigeria's economy and society. As a group they have excellent theoretical understanding of developmental economics and monetary and fiscal policies. The team continues to enjoy access to Obasanjo, a precious commodity since the President increasingly isolates himself from Nigeria's political players. But Obasanjo's own commitment to what they are trying to do is an open question.

¶3. (S/NF) As a group, the Dream Team are true believers. They believe they have a mandate from Obasanjo to carry out reforms, and consider themselves more effective than they really are. Isolated from Nigerian reality, they sometimes issue directives without follow-through, leaving implementation to subordinates who have not bought into their vision. Their decision-making can be characterized at times as amateurish, with policy prescriptions borrowed from whatever catches their attention at a given moment.

¶4. (S/NF) The Dream Team is in a weak position and politically completely dependent on the President. There is no evidence the President intends to stick with them should circumstances change. Indeed, there is no evidence the President actually believes in their policies. Some observers argue that the President has a vision of a democratic Nigeria with greater prosperity and reduced poverty, and he believes in the Dream Team. Others argue that were the Dream Team to cease serving the President's

purpose by mollifying the international community, he would dump them abruptly. Lacking support from the top levels of government, the civil service and state and local governments, the Dream Team thus finds itself isolated above and below. Their main reference group is their own in-group, and, to Embassy observers, increasingly they appear to be "burned out."

¶5. (S/NF) Finance Minister Okonjo-Iweala had, it may be recalled, tendered her resignation the first day on the job, and Soludo has reportedly made disparaging remarks about the President's commitment to economic reform. Now firmly ensconced at the Central Bank, where he enjoys the job security of a seven-year term, Soludo appears to have settled in. Another technocrat associated with the group, Minister of the Federal Capital Territory and former director of the Nigeria's privatization efforts, Nasir el-Rufai, had become so discouraged before the 2003 elections that he had then told Emboffs that he would leave government after the election. Instead, he was given one of the more coveted ministerial portfolios in Obasanjo's second administration. While the team have accepted their plum positions and remain in place, they still have no guarantee from the President that they will continue in office if the international community begins focusing on the concrete results of their performance.

¶6. (S/NF) Professor Charles Soludo, who is credited with the authorship of the NEEDS (Nigerian Economic Empowerment and Development Strategy), has had his role changed. He is the one member of the team who has spent relatively little time abroad. Finance Minister Okonjo-Iweala formerly viewed him as her protg and reportedly pushed for his appointment to the governorship of the Central Bank of Nigeria. The appointment has resulted in Soludo's gaining his own independent power base. The Governor enjoys a seven-year term and, increasingly, Soludo has the President's ear. Of late, requests to see him have frequently been answered with "He's at the (Presidential) Villa." This apparent enhancement of Soludo's role could provoke a rift in the Dream Team and might ultimately result in economic policies at cross-purposes with one another. Soludo's recent autocratic decision raising the bank capitalization requirement to 25 billion naira, which has been decried by many proponents of the status quo, may focus dissension within the Dream Team, even if the President backs Saludo's initiative. (With a quarter of Nigeria's 89 banks on a marginal or unsatisfactory footing as of the end of last year, reasoned argument can be made in favor of broader capitalization of the banks. Whether the increase should be phased from 2 to 25 billion naira and restricted to full service banks that serve as clearinghouses are other issues.)

7 (S/NF) Meanwhile, the real economy remains in the hands of a different team of operators close to the President and the Vice President. Among these people are Stella and Gbenga Obasanjo (the President's wife and son), Tony Anenih (former public works minister), Aliku Dangote (industrialist), Mohamed Aliyu Gusau (national security advisor), and Dr. Dere Awosika (director of the National Program for Immunization). The vision of the President's and Vice President's group, while clear, is short sighted, the result being that its members line their own pockets rather than help expand the broader public's general well-being.

Liberal Economics vs. Import Bans

¶8. (C) The GON's general economic policy has been inconsistent and erratic, especially trade policy. The GON has taken steps to reduce tariff rates and to rationalize customs enforcement, but at the same time it has slapped import bans and punitive tariffs on a growing list of goods.

¶9. (C) Nigeria's bans on food product imports in particular have been inflationary, regressive, and inconsistent with the Dream Team's stated economic policies as a whole. These bans have reversed a trend of ten years of progressive liberalization of food imports. Previously, when the GON instituted bans, such as those on wheat and corn, it later reversed the bans and imposed tariffs in their place. Currently, the bans appear to have no end in sight, and the list of banned food items has expanded. Although the poorest segment of the population consumes few imported food items, they do spend the largest proportion of their household budget on food. Higher food prices therefore tend to affect them most. The ban on imported poultry has raised poultry prices by 50 percent and rice, a major component of the Nigerian diet, while not banned, is subject to an import duty of 100 percent. Fruit juice prices have also gone up significantly since the ban on fruit juice.

¶10. (S/NF) The rationale for the bans is frequently unclear. Are they a means of infant industry protection, or simply an outgrowth of corruption and pandering to special interests?

Nigerian nationalism and the desire to fill the void with a Nigerian solution are causes of protectionist measures against imports and foreign investment. Some bans or tariffs appear to be sweetheart deals, pure and simple. For example, after sugar-milling industrialist Aliko Dangote gave a multi-million naira campaign contribution to the President's party in the run-up to the 2003 elections, the government instituted a 100 percent import duty on refined sugar. For the poultry industry, the benefit recipients are less clear. The president of the Nigerian poultry association lobbied long and hard for a ban on imported poultry. While he personally has profited, the GON has done little to aid the industry. Although the USG funds training for Nigerian poultry farmers in the hope that such training will lead to more exports of U.S. feed grains, the GON has expanded its poultry ban to include breeding stock, virtually ensuring slower growth of Nigeria's poultry industry.

¶11. (S/NF) Finance Minister Okonjo-Iweala has stated that Nigeria's long-term trend is toward trade liberalization, that these bans are temporary aberrations imposed by the President in the face of special circumstances. If so, it appears the President is willing to undercut his economic team whenever it benefits loyal political supporters.

Poverty Alleviation vs. Selective Enrichment

¶12. (S/NF) The Dream Team has yet to initiate action to improve the roads and agriculture. While NEEDS does address these sectors, it specifies no specific programs and timelines for implementation. NEEDS, it appears, as generally articulated, reflects economic and social theories not connected to an existing delivery system; NEEDS may thus call for large expenditures on buildings and vehicles necessary to sustain the bureaucracy to run the program for which no budgetary or other provision has been made. Obasanjo's two previous poverty alleviation programs arguably enriched mostly the cronies he had put in charge of the programs. Whether NEEDS will be more of the same depends on Obasanjo's sincerity in his stated goals of alleviating the suffering of the 90 percent of Nigerians living on less than two dollars a day (source: UNDP 2004 Human Development Report (HDR)).

¶13. (S/NF) Many of Nigeria's policies benefit a select group of the political and economic elite or reward political operatives for loyalty. One prime example is maldistribution of chemical fertilizer. Only 20 to 30 percent of Nigerian farmers have access to chemical fertilizer. There is no domestic production, so the GON imports fertilizer and sells it at a subsidized price. Most of it is distributed to few landowners who are well off and who tolerate middlemen lining their pockets along the way. The Ministry of Agriculture and Nigeria's private sector fertilizer association have asked USAID's help in analyzing the GON fertilizer policy, and with assistance will likely announce a "new" fertilizer action plan, the successful implementation of which will be an open question.

¶14. (S/NF) Special interests seem to order the GON's economic policy priorities. Having a transparent, orderly budget is a step in the right direction, but the reality of financial flows is a reality different from the stated process. And the federal government policy of publishing the budgeted amounts for state and local governments does not foreclose continued manipulation of the political and budgetary process. Budgeted amounts have historically had little relation to disbursements. For example, former Minister for Housing and Public Works Tony Anenih was often roundly criticized for the huge sums budgeted for road repairs with little result. Anenih claims the funds were never released to his ministry, so he cannot be accountable. Another example is "special grants": regardless of what is budgeted for the military, if a favored program, project, or activity requires funding in excess of that budgeted for, funds are often found and disbursed. Lastly, early this year, the American company AES was owed $25 million by NEPA, Nigeria's electric power authority, a debt guaranteed by the GON. When it became evident that Citibank was going to call in its OPIC guarantee, and following Embassy intervention with Finance Minister Okonjo-Iweala, who in turn interceded with the President, the GON came up with the $25 million, although there was no budgetary allocation for this purpose.

¶15. (C) The problems with the budget do not lie in the process itself, but rather in the accounting. To date there is still no exact figure of how much crude oil is being pumped and sold or how much revenue these sales bring to Nigeria, although the Finance Ministry has an official on leave from the IMF, Dr. Bright Okogu, working on this matter full-time. Another gap is between amounts budgeted and funds actually released. Without precise accounting of these two elements of Nigeria's cash flow, it is impossible to ensure transparency.

State of the "Real" Economy:
     Deceptive Nature of Available Data

¶16. (U) American businessmen in Nigeria note the economy is faring better than official statistics would indicate, because the informal economy is so large. The IMF estimates Nigeria's informal economy at half the country's economic output. There is a visible increase in what might be called conspicuous consumption, such as mobile phones, motorcycles, and automobiles. Although cellular phones are not a necessary good, an increasingly large proportion of the lower middle class apparently cannot do without them.

¶17. (SBU) While the rising number of cars, motor bikes, and cell phones suggests that more people are enjoying higher living standards, Nigeria has regressed relative to its neighbors and relative to itself in the past few years as measured by vaccinations, infant mortality and access to health care (source: Nigeria's 2003 Demographic and Health Survey (NDHS)). Survey findings indicate that less than thirty percent of the population improved its living standard during the last five years while the lot of the remainder has worsened. Moreover, about 40 percent of children under five remain under height or under weight for their age (source: 2004 HDR). That figure was 35 percent in 1990. Agriculture, the sector of the economy in which most people are employed, is generally in decline, an ongoing trend for the past two decades. Hydrocarbons is the only sector with any depth or stability, but only because the Government of Nigeria cannot afford to alienate the major oil companies.

¶18. (SBU) Nigeria's current economic policies do not seem to be having any effect in reversing the generally negative trend mentioned above, and some even make it worse. As mentioned in paragraph three above, many of Nigeria's policy decisions seem to be modeled on other countries' very different experiences. Central Bank Governor Charles Soludo apparently got the idea of increasing the capitalization requirement for banks to 25 billion naira (about USD 190 million) while attending a seminar in Southeast Asia on the experiences of Indonesia and Malaysia. But in both countries, the banking sector may have been more robust prior to recapitalization than it is in Nigeria. Likewise, GON officials say their newly enacted cabotage law is based on that of the United States, ignoring the fact that it has a domestic shipping industry whereas Nigeria has virtually none. Such policies, adopted from various countries and hailed as "best practices", have been adopted piecemeal and often fit Nigeria's economic circumst
ances poorly.

Comment and Recommendations

¶19. (S/NF) The economic Dream Team's macroeconomic reforms are conceptually on the right track, so we should support them. At the same time, because of Nigeria's historically weak implementation of reform measures and the relatively little attention to issues at the micro level, we should harbor few illusions about their likely effectiveness. We must recognize that the members of the President's economic team serve at his pleasure, have little support from above or below, and are subject to being dismissed summarily if they do not obtain for the President the international credibility he desires. In sum, we should support the Dream Team while moderating our expectations.

¶20. (S/NF) Eventually rewarding Nigeria's economic reform efforts with debt relief might be a fitting tribute to the Dream Team's efforts, but were debt relief attained, the President might then conclude that he no longer need support his talented economic team. Yet despite all their efforts, the team has few accomplishments to show. Without success, what would be the rationale for debt relief? From the Mission's perspective, we therefore recommend that whatever benefit or concession we might give to Nigeria in recognition of its reform efforts should be tied to implementation of economic policies that clearly improve education and health care, and that mitigate poverty.

¶21. (S/NF) In large part because of rising demographic growth, the lackluster performance of the Nigerian economy over the last five years has been impoverishing more and more people, which promotes instability. We should therefore engage Nigeria on matters of policy implementation, just as we should encourage the GON to prioritize its goals and set time lines for their achievement. While we should support the best policies of the Dream Team, we should also exhibit "tough love" by holding out for positive results. Ultimately, improving the welfare of the 90 percent of Nigeria's population most in need is key to achieving our overarching USG goal in the country: peace and stability in

Nigeria.
CAMPBELL